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Zacks Small-Cap Research

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Arcimoto, Inc. (FUV-NASDAQ)

FUV: 3Q18 –Management Optimistic About Rental Model

Arcimoto is ramping up its production and distribution capabilities and anticipates small scale retail series production in Q1 2019 and commercial retail series production ramping throughout 2019. The company raised $1.5 million in a recent equity offering to help advance its commercialization strategy.

OUTLOOK

The company has experienced a substantial increase in the number of online advance reservations, with 3,018 pre-orders as of September 30, 2018, up from 1,281 at March 31, 2017. If the company can convert these pre-orders into actual sales, management believes it bodes well for ramping its product sales revenue stream.

Current Price (11/29/18)	$2.10
Valuation	**$3.50**

SUMMARY DATA

52-Week High	**$5.48**
52-Week Low	**$2.00**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**38,035**
Shares Outstanding (mil)	**16**
Market Capitalization ($mil)	**$31**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**57**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-cap**
Industry	**Automotive**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	0.0A	0.0A	NA	NA	0.1A
2018	0.0A	0.1A	0.0A	0.0E	0.1E
2019*					28.5E

Per Share Earnings

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-0.04A	-0.05A	NA	NA	-0.24A
2018	-0.13A	-0.14A	-0.20E	-0.22E	-0.70E
2019					-0.41E

*2019 revenue and per share represent low end of forecast range
Quarters might not sum to annual reflecting rounding.

Disclosures begin on page 9.

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KEY POINTS

- Green vehicle manufacturer Arcimoto is still largely pre-revenue at this early stage, generating $5,793 in total sales in the third quarter of 2018 largely from the sale of merchandise and metal fabrication.

- The company expects to ramp-up Retail Series production in 2019 if it can raise the capital that this ramp will require. The company recently filed a shelf registration and recently raised $1.5 million (see below).

- Arcimoto had $2.4 million in cash and equivalents and $0.7 million in short-term investments on its balance sheet at September 30, 2018, compared to $2.1 million and $5.2 million, respectively, at the end of the prior quarter. Pro forma for the recent offering, cash and equivalents is an estimated at $3.9 million. The company expects its cash burn rate will decline dramatically once it achieves commercial launch, which management expects is imminent.

- Arcimoto completed its first rental operation test in Eugene, Oregon and views this pilot as successful in helping it fine-tune its rental outlet strategy. The company plans to reopen the Oregon location, as well as a San Diego site, once it has begun to produce retail FUVs for commercial sale and rental. The company is optimistic that the rental centers can generate revenue as customers pay for the opportunity to test drive the FUV, which may also lead to additional pre-orders.

- Subsequent to the end of the third quarter 2018, Arcimoto raised gross proceeds of roughly $1.5 million through the offering of 504,900 shares at $3.00 per share (an above market transaction). All insiders participated, with the CEO purchasing 139,903 FUV shares and the CFO, COO and all other directors purchasing shares, as well. These funds shore up the company's balance sheet and are earmarked to further advance Arcimoto's commercialization strategy.

3Q18 FINANCIAL OVERVIEW

Green vehicle manufacturer Arcimoto is preparing for the commercial launch of its efficient and economical product, the *Fun Utility Vehicle* (FUV). At this stage, the company is still largely pre-revenue, generating $5,793 in total sales in the third quarter of 2018. This revenue largely reflected the sale of merchandise and metal fabrication.

As the company positions itself to benefit from government mandates of lower car emissions and rising consumer interest in green automobiles, Arcimoto is ramping up its production and distribution capabilities and hopes to begin small scale retail series production by the end of 2018. To-date in 2018, Arcimoto has produced 15 beta series vehicles and also commenced the manufacture of six units as test vehicles testing final retail design to boost integration of automation, reduce build time and improve vehicle mechanics and overall quality.

The company expects to ramp-up Retail Series production in 2019 if it can raise the capital that this ramp will require. The company recently filed a shelf registration and is in the process of raising capital. On October 3, 2018, Arcimoto filed a registration statement, allowing the company to raise up to $150 million, if needed.

The company believes that it has improved the production process as it moves up its production learning curve and also continues to integrate automation. Moreover, management strives to reduce construction time and increase production efficiency as the company moves towards mass scale production. The company's near-term production goals – If it can raise the capital – are illustrated in the figure below

Product Finalization Targets

Series	Beta 3	A-1	A-2	A-3
Time Frame	4Q18	4Q18	Jan-19	1Q19
Units	3	3	7	n/a
Goal	Automation-ready mechanical design	Production-intent electrical design	Release candidate	First retail delivery

Source: Company reports

The company recognized $3.2 million in total operating expenses, as it continues to engage in R&D activities, build out its engineering and production capabilities and drive consumer awareness through marketing and sales efforts.

The company reported a net loss of ($3.2) million versus ($0.7) million reported in 3Q17 prior to the opening of the production plant. This equates to ($0.20) per share versus a ($0.05) per share net loss registered in 3Q17. Our full year projections change by the 3Q18 variances from our estimates and revisions to our 4Q18 and 2019 base case estimates. We are reducing our near-term price target to $3.50 until scale production ramps. With growing scale once production and sales commence, Arcimoto expects to reduce its operating losses and move towards profitability.

Balance Sheet
Arcimoto had $2.4 million in cash and equivalents and $0.7 million in short-term investments on its balance sheet at September 30, 2018, compared to $2.1 million and $5.2 million, respectively, at the end of the prior quarter. With its current cash burn rate, we estimate that Arcimoto has adequate resources for the next one to two quarters unless it generates significant cash from the new rental model (see below) and raises sufficient capital.

Recent Capital Raise
Subsequent to the end of the third quarter 2018, Arcimoto entered into an agreement with certain shareholders to offer 504,900 shares at $3.00 per share. The company raised gross proceeds of roughly $1.5 million, before offering expenses. These funds shore up the company's balance sheet and are earmarked to further advance Arcimoto's commercialization strategy.

Moreover, the company expects its cash burn rate will decline dramatically once it achieves commercial launch. The company has also submitted an application to the ATVMLP (Advanced Technology Vehicles Manufacturing Loan Program), a unit of the Department of Energy that supports the development of advanced technology vehicles (ATVs) that meet higher fuel efficiency standards. The ATVMLP provides low-cost loans that can be used for manufacturing facilities for such vehicles. The company has completed its ATVMLP application for $100 million in funds. The company also hopes to generate high margin cash flow through its recent launch of a rental model in conjunction with retail partners.

INSIDER ACTIVITY

Insiders also participated in the above-noted offering, underscoring their confidence in the company's outlook. Specifically, CEO Mark Frohnmayer purchased an additional 139,903 FUV shares at an average price of $3 a share for a total cost of $419,709. CFO Doug Campoli purchased 800 shares at $3 and COO Terry Becker purchased shares at $3. All other directors participated in the offering as well.

In tandem with the above-noted share offering, Arcimoto CEO Mark Frohnmayer exchanged 2.0 million shares of FUV common stock for 2.0 million shares of a newly created class C preferred stock, which ranks pari passu with the common stock and will automatically convert into 2.0 million shares of common stock if Arcimoto files an amendment to increase the number of authorized shares of common stock.

RENTAL STRATEGY

The company's rental strategy is also expected to generate positive cash flow. Historically, the company has displayed prototypes of the FUV or hosted test drive events in several states and at several trade and consumer shows and has increased the number of events in recent months. In addition to showing the FUV at major venues such as the annual Consumer Electronic Show, New York Auto Show, Concours d'Elegance, various National Drive Electric Week events, Battery Electric Vehicle Architecture Congress, and SEMA, the company recently has shown the vehicle at test drive events throughout the country, including in New York, Illinois, Missouri, Colorado, Washington, Oregon, California, Arizona, Texas, Louisiana, and Florida. To enable prospective customers to test drive FUVs while simultaneously driving cash flow, the company intends to open in-market experience centers in certain markets. These centers are also expected to facilitate the company's rental model.

Through this rental model, the company expects to allow customers in certain markets to rent the FUV on a daily or weekly basis from the in-market experience centers. This model is expected to be cash flow positive for Arcimoto and management anticipates forging partnerships with other companies to facilitate rentals. For example, the company has formed a partnership with HULA Holdings to introduce the EV Oasis charging, education, and rental center and anticipates additional in-market experience centers over time.

Arcimoto completed its first rental operation test in Eugene, Oregon and views this pilot as successful in helping it fine-tune its rental outlet strategy. The company plans to reopen the Oregon, as well as a San Diego site once it has begun to produce retail FUVs for commercial sale and rental. The company is optimistic that the rental centers can generate revenue as customers pay for the opportunity to test drive the FUV.

Management believes that it can boost brand awareness in well-trafficked destination markets with rentals, as people note the vehicle on the road. Over time, the company also expects to expand its rental footprint through franchises, which will enable it to minimize its own capital expenditures while broadening its network. The company believes that vacation markets such as the Hamptons in New York and many Florida, Hawaii and California cities, among other places, could eventually be good places for rental centers.

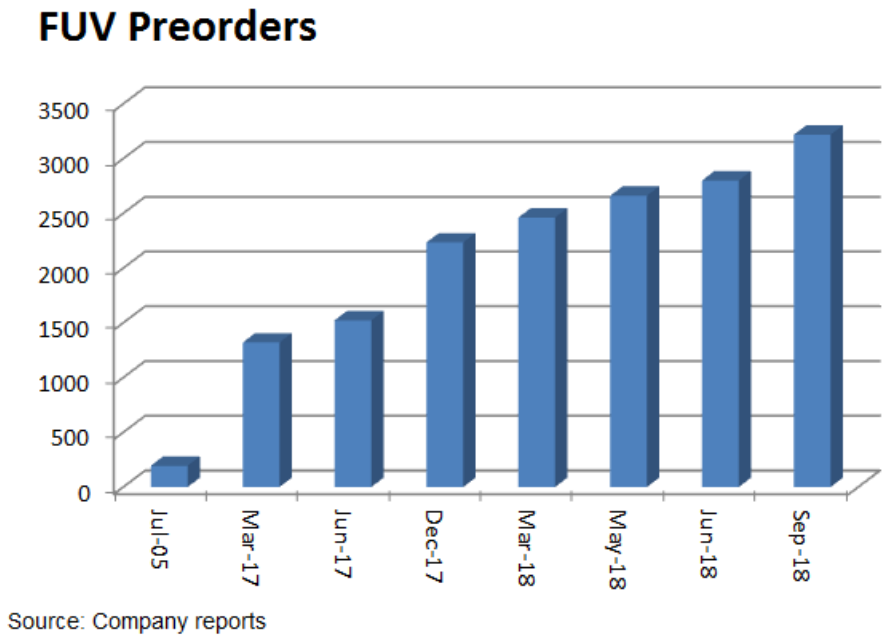
Other three-wheeled mini-vehicles such as the Renault Twizy, Panther ScootCoupe and Polaris Slingshot have found the rental concept to be successful. Not surprisingly, the rental concept appears to be best suited to tourism and destination markets.

PREORDERS

Since the company first began taking online advanced reservations for the FUV in September 2009, the number of advanced orders has grown significantly, albeit off a low base. Through October of 2015, 161 potential customers made deposits to purchase an FUV when it becomes commercially available. Since the launch of the FUV Generation-8 in late 2015, the company experienced a substantial increase in the number of online advance reservations. As of March 31, 2017, Arcimoto had 1,281 advance reservation

deposits from third parties. This figure had reached 2,234 by December 31, 2017, and 2,660 by May of 2018 and 2,800 units as of June 30, 2018 and 3,018 as of September 30, 2018.

Management has indicated that these preorders represent over $45 million in future revenue if they are converted into actual sales. The company anticipates that pre-orders could accelerate as it opens the planned rental locations, with the first two set to open, as noted, in Eugene, Oregon and Encinitas, California.



Source: Company reports

Reservations represent people who have placed $100 deposits. Management believes this group represents strong leads to convert to actual FUV sales. Moreover, its pre-sale initiatives have helped reduce the direct advertising cost of preorder acquisition to below $50, according to the company.

RISKS

We believe risks include those outlined below, among others.

- Among the biggest risks, in our view, is that the FUV fails to achieve traction more slowly than the company expects, which leads to lower than anticipated sales.
- The company is under-capitalized and expects to incur costs associated with marketing, R&D and sales for new products and services it expects to launch.
- Arcimoto could fall behind schedule on its current production and go-to-market plan.
- The company faces potential regulatory risk. NHTSA is reviewing new safety regulations pertaining to three wheeled motor vehicles.
- The company faces litigation risk. Arcimoto was served with a class action lawsuit in March of 2018 with regard to the completion of its Reg A offering.

PROJECTED INCOME STATEMENT

Arcimoto Income Statement & Projections ($)

	1Q17	2Q17	3Q17E	4Q17E	2017A	1Q18A	2Q18A	3Q18A	4Q18E	2018E	2019E Range estimated	
Grant revenue	40,580				40,580							
Product sales - related party	-			42,000	42,000	625	282	-	-	907		
Product sales	-	-	-	44,436	44,436	31	85,050	5,793	7,000	97,874	27,300,000	75,000,000
Rentail revenue	-	-	-	-	-	-	-	-	-	-	1,237,500	2,400,000
Total revenues	40,580	-	-	86,436	127,016	656	85,332	5,793	7,000	98,781	28,537,500	77,400,000
Cost of goods sold	-	-	-	78,439	78,439	-	95,815	31,625	206,860	334,300	23,205,000	60,000,000
Gross profit	40,580	-	-	7,997	48,577	656	(10,483)	(25,832)	(199,860)	(235,519)	5,332,500	17,400,000
Research and development	268,104	263,797	469,493	450,000	1,451,394	1,047,799	363,652	779,367	806,645	2,997,463	3,147,336	3,147,336
Sales and marketing	84,995	150,358	292,588	300,000	827,941	355,515	418,162	385,738	439,741	1,599,156	1,839,030	1,839,030
General and administrative	186,961	160,158	416,516	300,000	1,063,635	642,147	1,400,018	2,054,062	2,111,155	6,207,382	6,916,738	6,916,738
Total operating expenses	540,060	574,313	1,178,597	1,050,000	3,342,970	2,045,461	2,181,832	3,219,167	3,357,541	10,804,001	11,903,103	11,903,103
Income /(loss) from operations	(499,480)	(574,313)	(1,178,597)	(1,042,003)	(3,294,393)	(2,044,805)	(2,192,315)	(3,244,999)	(3,557,401)	(11,039,520)	(6,570,603)	5,496,897
Interest expense	(10,493)	(10,857)	(7,883)	(7,883)	(34,143)	(3,601)	(16,921)	(36,984)	(37,724)	(95,230)	(109,514)	(109,514)
Other	12	48	4,399	4,399	13,209	334	40,137	35,857	36,574	112,902	114,031	114,031
Net income /(loss)	(509,961)	(585,122)	(1,182,081)	(1,045,487)	(3,315,327)	(2,048,072)	(2,169,099)	(3,246,126)	(3,558,550)	(11,021,847)	(6,566,086)	5,501,414
Per share data												
EPS/(LPS)	($0.04)	($0.05)	($0.08)	($0.07)	($0.24)	($0.13)	($0.14)	($0.20)	($0.22)	($0.70)	($0.41)	$0.35
Avg shares out	12,369,017	12,761,712	12,762,212	13,158,247	13,554,282	15,896,575	15,919,215	15,973,816	15,973,916	15,940,881	15,942,881	15,942,881

Source: Company reports and Zacks estimates

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BALANCE SHEET AND CASH FLOW STATEMENT

Arcimoto Balance Sheet ($)

	2014	2015	2016	2017	Mar-18	Jun-18	Sep-18
Cash & equivalents	$25,609	$1,000,665	$414,405	$7,824,109	$1,425,288	$2,136,934	$2,371,903
Certificates of deposit			-	6,246,850	9,746,490	5,247,523	749,815
Accounts receivable	14,728	8,172	583	500	595	341	1,035
Inventory			26,825	194,525	616,559	1,290,548	1,907,553
Other current assets	-	26,612	28,207	401,160	666,201	1,034,668	1,617,990
Total current assets	40,337	1,035,449	470,020	14,667,144	12,455,133	9,710,014	6,648,296
Property and equipment, net	2,019	16,755	8,805	2,434,026	3,407,427	4,555,628	5,128,263
Other	-	-	40,000	-	-	38,844	38,844
Total assets	**$42,356**	**$1,052,204**	**$518,825**	**$17,101,170**	**$15,862,560**	**$14,304,486**	**$11,815,403**
Accounts payable		9,229	81,045	663,773	375,404	29,764	98,494
Accrued liabilities	71,751	61,219	102,776	255,758	254,628	470,949	627,240
Customer deposits	186,124	204,628	386,035	399,967	431,864	370,824	395,224
Other current debt	138,203	-	250,000	-	149,956	297,315	376,375
Total current liabilities	396,078	275,076	819,856	1,319,498	1,211,852	1,168,852	1,497,333
Long-term convertible notes payable			275,000	-			
Long-term convertible notes payable related party	25,000		50,000	-			
Capital lease obligations	-	-	-	-	774,254	1,376,478	1,572,320
Other	-	-	-	-	-	-	16,800
Total liabilities	**$421,078**	**$275,076**	**$1,144,856**	**$1,319,498**	**$1,986,106**	**$2,545,330**	**$3,086,453**
Total stockholders' equity (deficit)	**($378,722)**	**$777,128**	**$626,031**	**$15,781,672**	**$13,876,454**	**$11,759,156**	**$8,728,950**
Total liabilities & stockholder equity (deficit)	**$42,356**	**$1,052,204**	**$518,825**	**$17,101,170**	**$15,862,560**	**$14,304,486**	**$11,815,403**

Arcimoto Statement of Cash Flows ($)

	2014	2015	2016	2017	3-Mos Mar-18	6-Mos Jun-18	9-Mos Sep-18
Net loss	(680,933)	(1,349,292)	(1,919,479)	(3,315,327)	(2,048,072)	(4,217,171)	(7,463,296)
D&A	27,575	5,756	7,951	20,107	73,524	160,255	281,600
Gain / (loss) on asset sale	(400)	(16,000)	-		19,000	24,438	24,486
Stock-based compensation		57,177	48,375	203,734	113,596	165,397	381,316
Changes in working capital	(7,799)	166	243,948	(252,951)	(945,685)	(2,023,346)	(3,131,053)
Net cash used in operating activities	**($661,557)**	**($1,302,193)**	**($1,619,205)**	**($3,344,437)**	**($2,787,637)**	**($5,890,427)**	**($9,906,947)**
Purchases of CDs				(6,246,850)	(5,000,000)	(5,250,000)	(5,250,000)
Redemption of CDs					1,500,000	6,250,000	10,750,000
Proceeds from asset sales	400	16,000			250	250	250
Purchases of property & equipment	(21,091)	(20,491)	-	(1,960,438)	(65,271)	(709,243)	(878,109)
Other	-	-	-	-	-	(38,844)	(38,844)
Net cash used in investing activities	**($20,691)**	**($4,491)**	**$0**	**($8,207,288)**	**($3,565,021)**	**$252,163**	**$4,583,297**
Proceeds from sale of stock	265,011	2,419,943	467,945	20,372,271			
Proceeds from stock options exercise					29,259	29,259	29,259
Payment of offering costs			(10,000)	(1,285,842)			
Proceeds convertible notes related parties	50,000		50,000	175,000			
Proceeds from convertible notes payable			525,000	100,000			
Payment of capital lease obligations				-	(75,422)	(78,170)	(157,815)
Repayment of notes payable	-	(138,203)	-	(400,000)	-	-	
Net cash from financing activities	**$315,011**	**$2,281,740**	**$1,032,945**	**$18,961,429**	**($46,163)**	**($48,911)**	**($128,556)**
Net cash increase (decrease)	**($367,237)**	**$975,056**	**($586,260)**	**$7,409,704**	**($6,398,821)**	**($5,687,175)**	**($5,452,206)**

Source: Company reports

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